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Today

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I'm appalled. Morgan is a triple-A company no matter how you look at them . . . If they're not triple-A, who in the world is?

J. Richard Fredericks, a bank stock analyst at Montgomery Securities, San Francisco, commenting on the downgrading by Moody's Investors Service of J.P. Morgan & Co. [Page 2]

White House Budget Would Cut Government's Role in Mortgages

By JIM McTAGUE and JAY ROSENSTEIN
Washington Bureau

WASHINGTON — A renewal of last year's unsuccessful assault on the growth of the federal government's giant mortgage agencies, and wide-ranging changes in federal credit programs for education and housing, are part of President Reagan's budget proposals announced Thursday.

The White House intends to continue its program of selling existing government loan assets without recourse, the budget documents state. Planned loan sales with a face value of $12 billion will affect such agencies as the Federal Housing Administration and the Small Business Administration in fiscal 1989. The budget estimates sales proceeds of $8.6 billion from these loans, or about 72 cents on the dollar.

The loan sale program, according to the budget proposals, is designed to reduce the government's cost of administering credit, to provide an incentive for agencies to improve loan origination and documentation, and to assist in measuring the federal subsidies inherent in federal credit programs.

Also in the budget report, the President urged the Federal Reserve Board to avoid tightening the nation's money supply.

"The outlook for inflation is quite favorable," the report said, noting that exchange rates and interest rates have been relatively stable this year. "Re-

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Monarch Creates Subsidiary to Market Insurance, Services to Bank Customers

By LYNN BRENNER

NEW YORK — Monarch Capital Corp., a leading seller of life insurance through securities firms, on Thursday announced the creation of a subsidiary to market insurance and related services to banks' customers.

The new firm, Hudson Valley Financial Services, will be an independent unit offering the products of unaffiliated insurers in addition to its parent's policies, Monarch said.

Hudson Valley's first customer is Manufacturers Hanover Trust Co. The firm will sell insurance products to the bank's retail customers in New York, said Colleen Bugbee, a Hudson Valley spokeswoman.

Hudson Valley's initial marketing effort at the bank will focus on mail, telephone marketing, and seminars. They are recruiting a sales force.

"We may eventually have a physical presence in the bank," Ms. Bugbee said. "But the idea isn't to rely on walk-ins. We want our sales force making appointments with bank customers, in our offices and in the customers' homes."

This is Manufacturers Hanover's first serious attempt to make insurance available to customers, said the bank's senior vice president for retail marketing, Robert J. Hutchinson. The bank currently offers only credit-related coverages. Hudson Valley services will be marketed to the bank's branch customers, credit card customers, and to

Monarch: Page 14 ▶→

MasterCard Signs Up Uncle Sam

Agencies to Use Card To Charge Purchases

By BILL McCONNELL
Washington Bureau

WASHINGTON — The bank card industry gained a major customer Thursday as the U.S. government unveiled a plan to use MasterCards for small purchases.

Employees of several federal agencies are being issued cards by Rocky Mountain BankCard System, a Denver-based card processing company. The program expands a test begun in late 1986, Department of Commerce officials said.

The plan could save the federal government $100 million during its first full year if adopted by all agencies, said Kay Bulow, assistant secretary at the Department of Commerce.

The Commerce Department is using 2,200 cards, and 13,000 cards are in use at other departments, including Agriculture, Defense, Health and Human Services, Housing and Urban Development, Interior, Labor, Transportation, and the Treasury. As many as 350,000 federal employees may be eligible to use the card, and all federal agencies are eligible, Ms. Bulow said.

The MasterCard program is the latest in a series of credit card efforts by the federal government in recent years. Employees of some government agencies have used Citicorp's Diners Club card since 1983 for travel and entertainment. In 1987, the government began accepting MasterCard and Visa payments for customs duties, bail bonds, postage stamps, and other products.

The government will pay a $5 annual fee for each MasterCard. Rocky Mountain BankCard and MasterCard will

US Government: Page 15 ▶→

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COMMENT

The Major Banks Have Paid Too Little for Full FDIC Coverage

By IRVINE H. SPRAGUE

CONGRESSMAN Gerald D. Kleczka, D-Wis., on Thursday introduced legislation to have the Federal Deposit Insurance Corp. assess premiums on the foreign deposits held by U.S. banks. As a member of the House Banking Committee, Mr. Kleczka should get a hearing. At stake is about $300 million in assessments against a handful of megabanks.

The proposed legislation revives an issue that has been lurking in the background for years and addresses an effort I have carried out with notable lack of success since the failure of Continental Illinois National Bank and Trust Company of Chicago in 1984. Sen. William Proxmire, D-Wis., joined the effort at that time and had legislation drafted similar to Mr. Kleczka's bill.

The largest banks in the United States simply do not pay their fair share for the protection of FDIC insurance. Eight pay on less than half of their deposits. The other 14,000 banks across the nation pay on 100% of theirs.

To rub in the discrepancy, the biggies who pay on only a fraction of their deposits are all in the "TBTF" category: too big to fail. There is no way our government will allow any of the largest banks to go under. Not only are they exempt from much of the assessment costs, they are de facto guaranteed that all of the deposits are protected.

In 1984, I was cautioned by fellow FDIC board members not to rock the boat on the assessment issue: "Why do this?" I was asked. "Nothing is going to happen, and you are making the big banks mad at us."

In 1986, I outlined the unfair assessment system in my book, "Bailout," and since then I have pursued the subject in speeches to community bankers in Minnesota, California, Florida, Georgia, Iowa, and Illinois. In every instance, the response was strong support for change.

This support was evidenced in 1986 during the closing days of the 99th Congress when the Senate voted 63 to 32 to assess all deposits, foreign and domestic alike. The reform was misplaced in the budget bill and it disappeared in conference.

FDIC assessments can be used only by the FDIC and have nothing whatever to do with general government. However, the administration counts FDIC profit or loss in its consolidated budget account. Thus more FDIC profits do reduce the reported budget deficit. But the fact is, these dollars have absolutely no impact on government spending or the federal budget.

FDIC Chairman L. William Seidman has noted the phoniness of the budget issue. He said that assessing foreign deposits raises several complicated issues and that the appropriate forum to consider them is the House and Senate banking committees.

The hearings should be volatile. The community bankers are vocal about getting the short end of the stick. This is a guaranteed winning issue for any congressman in 1988. How often do you find an issue that is fair, right, long overdue, and also popular with your constituents? The congressmen need only balance the financial support from and the pressures by a dozen big-city institutions against the votes of their local constituents. The choice is easy.

The distinction between foreign and domestic deposits dates back to 1933 when the FDIC was created. The law states that assessments will be made on "domestic deposits." The reasons for this language are lost to history, but it certainly was not because of any dependency on foreign deposits in 1933.

Before Continental there was no real reason to question the lack of payment for the protection of foreign deposits. After all, we figured that it was theoretically possible for a big bank to fail and that the uninsured foreign deposits would be at risk. Four years earlier, we had bailed out First Pennsylvania, but foreign deposits were not a major factor.

Continental caused me to reconsider the assessment rules. The more the system is examined, the clearer it becomes that it is patently unfair.

The Continental bailout protected the entire $69 billion holding company structure: the book and off-book liabilities, the insured and uninsured depositors, foreign and domestic. At the time of the failure, there was just under $3 billion in insured domestic deposits, on which only $6.5 million in assessments had been paid.

The message was clear. Big banks with foreign deposits pay on only a fraction of their total deposits, yet all of the deposits are protected. The Continental cost appears to have leveled off at about $1.75 billion, and in the process all banks have lost the assessment rebate they had been receiving for more than 50 years.

The accompanying chart shows that eight institutions are paying on 50% or less of their deposits, while nearly all other banks in America pay on 100%. The table reports on the 10 institutions that had the most foreign deposits in 1987. A few other regionals had some

Citicorp, the unchallenged leader in American banking, with over $200 billion in holding company assets, paid $34 million to the FDIC in 1987, the assessment based on just 38% of its deposits. At the same time, BankAmerica, less than half as large as Citicorp, paid $42 million, the assessment based on 69% of its deposits.

Does anyone believe that either Citicorp or BankAmerica would be allowed to fail? The answer, of course, is no. So we have a situation in which two of America's megabanks, both receiving the same kind of protection, pay vastly different rates.

Since Mr. Kleczka's proposed change in law will affect only a handful of institutions, the lobbying is narrowly focused. The basic argument against the legislation is that the imposition of a one-twelfth of 1% charge on foreign deposits will make the megabanks noncompetitive in foreign markets.

This kind of reasoning would be analogous to Lee Iacocca arguing that Chrysler should not have to pay taxes so it could better compete with Toyota.

The lobbyists are chasing their tails with this argument. Either the margin is so low that it is immaterial, or it is so high that it is intolerable for these banks to maintain such an advantage over their American rivals.

The Citicorp lobbyist, Bob Barnett, a former FDIC chairman and a savvy politician, came up with a new twist in talking to Congressman Kleczka. Changing the assessment would hurt foreign trade, he argued. Trade is a buzzword in this election year, so I guess Mr. Barnett decided to throw it into the pot, relevant or not.

The words used to describe the deals are different. But the total protection for all depositors exists whether the bank is given open-bank assistance, bailed out, sold, or handled in what is called a purchase and assumption transaction. The uninsured depositors are at risk only in a payoff, whether direct or through a deposit transfer, when the bank is closed and the insured depositors receive their money.

In fact, there has been only one closure and payoff of a bank over $200 million in the entire history of the FDIC: Penn Square. In addition, there have been five payoffs over $100 million and eight more over $50 million. Only in these cases was there any significant loss to depositors.

My original proposal was to assess all deposits and use the added income to reduce the basic rate for all banks. Mr. Kleczka follows this approach with a reduction of the rate from one-twelfth to one-fourteenth of 1%.

Today, with the FDIC operating with a record low surplus in 1987 of $50 million, it would be more prudent to use the added income to build up the FDIC fund. ■

The largest banks in the U.S. simply do not pay their fair share for the protection of FDIC insurance. Eight pay on less than half of their deposits. The other 14,000 banks across the nation pay on 100% of theirs.

— Irvine H. Sprague

Who Pays Least for FDIC Protection?

Ten institutions with most foreign deposits in 1987

	Assets 12/31/87 ($ Bil.)	Domestic Deposits 9/30/87 ($ Bil.)	Foreign Deposits 9/30/87 ($ Bil.)	FDIC 1987 Assessment ($ Mil.)	Percent of Deposits On which Assess. paid
Morgan Guaranty	$75	$15	$34	$11	31
Bankers Trust	57	11	23	9	32
Citicorp	204	40	66	34	38
Republic National	19	5	8	3	39
First Chicago	44	12	17	9	41
Chase Manhattan	99	27	36	24	43
Continental Illinois	32	8	10	7	44
Manufacturers Hanover	73	23	23	18	50
Chemical	78	26	13	20	67
BankAmerica	93	50	23	42	69

Source: Federal Deposit Insurance Corp.

Mr. Sprague served as chairman or director of the Federal Deposit Insurance Corp. for more than 11 years. During that time, he handled 374 bank failures, more than anyone else in FDIC history.

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Remember, we need your views to be a true community newspaper.

Strategic Dates
Jan. 1, 1991

CALIFORNIA TRIGGER: Full interstate banking in California is scheduled to go into effect on this date.